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U.S. DEPARTMENT OF THE INTERIOR

OFFICE OF INSPECTOR GENERAL

AUDIT REPORT

REVIEW OF THE FINANCIAL STATUS,
FINANCIAL MANAGEMENT SYSTEM,
AND SELECTED PROGRAMS, CONTRACTS AND GRANTS
CROW TRIBE OF INDIANS
FISCAL YEARS 1980 AND 1981



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United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
WASHINGTON, D C 20240

March 26, 1982

Memorandum

To: Assistant Secretary for Indian Affairs

From: Richard Mulberry
Inspector General

Subject: Review of the Financial Status, Financial Management System, and Selected Programs, Contracts and Grants, Crow Tribe of Indians, Fiscal Years 1980 and 1981

The enclosed report discusses our review of the financial management system and operations of the Crow Tribe of Indians in Montana.

Our report demonstrates that the Tribe was in an unstable, adverse financial condition as of September 30, 1981 because of ineffective financial management or financial mismanagement. The Tribe had current liabilities of over \$1.8 million, (including \$1 million owed the Federal government) long term debts of \$6 million and about \$960,000 in questioned and disallowed costs from audits of Federal contracts and grants. But the Tribe has no readily available source of funds to meet its obligations.

Despite the investment of over \$1 million of Federal funds for design and implementation of a financial management system, the Tribe had not completely implemented the system and its policies and procedures had been disregarded or circumvented. As a result, the Tribe did not actually know the financial results of programs, status of funds and other assets, nor the status of liabilities. The Tribe had about \$11.6 million in Federal and State contracts during FY's 1980 and 1981 and approximately \$10.9 million in revenues mainly from mineral leases, grazing leases and interest during FY's 1980 and 1981. The Tribe's management of its Federally funded programs had also been inept. This was evidenced by the fact that several programs had been suspended or cancelled because of the condition of the program, the lack of progress or the failure to adhere to contract requirements.

We audited \$2,400,690 of recorded costs incurred under 11 Federal contracts and questioned and disallowed costs of \$118,013 and \$10,753, respectively. In addition, internal controls for the payroll system were either circumvented or disregarded to the extent that we were unable to render an opinion on costs produced by the system, which represent an estimated 76 percent of the Tribe's costs charged or allocated to Federal programs.

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Upon completion of the initial survey work we advised BIA on September 3, 1981 that because of the Tribe's adverse financial condition and programmatic and financial management problems our report would probably recommend some type of Federal stewardship or control over Tribal finances and programs. In response, BIA appointed a Federal Manager in November 1981.

We are recommending that BIA arrange for control over all Tribal and Federal funds, develop a plan for payment of liabilities, provide for proper maintenance of the financial management system and establish methods to improve program accomplishment. Further, we are recommending that the Federal Manager be retained until the Tribe demonstrates that it can and will effectively manage programs and financial resources.

In view of the corrective actions being taken as detailed in the March 10, 1982 response to a draft of this report from your Deputy Assistant Secretary - Indian Affairs it will not be necessary for you to respond to this report as normally required by 360 DM 7.3. However, we would appreciate being advised of any problems you encounter in implementing corrective actions.

Richard Mulhenny

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INTRODUCTION

The Office of Inspector General has reviewed the financial management system and operations of the Crow Tribe (Tribe) of Montana. The Tribe was selected as one of the Tribes to be reviewed by this office because of accounting problems and allegations of abuses in the use of contract funds.

The objective of our review was to determine the adequacy of the Tribe's financial management system and related controls. Another objective was to determine the financial and programmatic status of the Tribe's programs, contracts and grants for fiscal years (FY) 1980 and 1981. To test the financial management system we audited costs incurred under selected Federal contracts and grants. Our limited audit of costs included tests of \$2,400,690 of costs recorded under 11 contracts and grants during FY's 1980 and 1981. The details of the contracts and grants audited are shown in Exhibit II.

Our review was made, as applicable, in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" issued by the Comptroller General of the United States, and accordingly, included such tests and auditing procedures as we considered necessary under the circumstances. We made our review at the Tribal offices from July to November 1981.

We issued an interim report on September 3, 1981, in which we reported that the Tribe's financial management system was not adequate and the Tribe's financial condition was such that it was technically insolvent. We also reported that the final report would probably recommend some type of direct Federal control or stewardship for all Federally funded Tribal programs and revenues produced from Tribal lands under the Bureau of Indian Affairs (BIA) trust responsibility. This final report affirms our tentative conclusions and recommendations.

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BACKGROUND

The Crow Tribe of Indians is located on the Crow Indian Reservation in south-central Montana. The reservation covers approximately 2,282,000 acres, of which 1,229,628 acres are owned by individual members of the Tribe. The Tribe owns 335,952 acres and about 700,000 acres are owned by non-Indians. Approximately three-fourths of the land owned by individual Tribal members is leased to non-Indian farmers and ranchers. Open grazing accounts for 77 percent of the useable land, 13 percent is used for dry farmland, 7 percent is timberland, and 3 percent is irrigated. There are approximately 6,500 members of the Tribe of which approximately 4,400 live on the reservation.

We identified \$11.6 million in Federal and State contracts and grants which were available during FY's 1980 and 1981. These are shown by Exhibit T. In addition, BIA spent about \$3.5 million and \$4.1 million for FY's 1980 and 1981, respectively, to operate its Crow Agency and provide related services, and the Indian Health Service (IHS) spent about \$2.3 million in FY 1980 and \$2.8 million in FY 1981 to operate its Crow Agency and provide related services. The public school system of Montana operates the elementary and secondary education program.

The Tribe's principal income, apart from Federal assistance, comes from mineral leases, namely coal, grazing, and interest on money held by BIA. Its receipts from these sources were \$8.6 million in FY 1980 and \$2.3 million in FY 1981. The \$8.6 million in FY 1980 included an advance

payment of \$5 million from Shell Oil Company for a coal lease. The entire \$5 million was distributed to Tribal members as per capita payments. The Tribe's revenues from the Shell Oil lease will increase substantially in the future. The Tribe will receive an additional \$7 million in lump sum payments, prior to the start of mining operations. Thereafter, the Tribe will receive a minimum royalty payment of \$3 million a year with the potential of receiving \$9 million a year.

The Tribe also receives revenues under a coal lease with Westmoreland Resources. Approximately \$1,850,000 was received by the Tribe under this lease in FY 1981. Sixty percent of the revenue from the Westmoreland lease is distributed in per capita payments, 20 percent is used for land purchases and 20 percent for Tribal government operations. The remainder of revenue from other sources is generally used for Tribal government operations.

The largest commercial enterprise owned and operated by the Tribe is the Sun Lodge, a 60 room motel and restaurant. The Sun Lodge, constructed in 1971 at a cost of approximately \$1 million, has lost money every year and as a result has been a drain on the Tribe's financial resources from the start.

The Tribal government is comprised of a Tribal Council (Council), Tribal Chairman, Vice Chairman, Secretary, Vice Secretary and a 14 member executive committee. The Council which consists of all adult Tribal members, meets quarterly and at other times as needed. The Tribal

Chairman, other officers and executive committee members are elected to 2 year terms by the Council. The Chairman is responsible for the management of Tribal operations and, thus, has a considerable amount of influence and control over all Tribal operations.

The Tribe's financial management system is semi-centralized. The centralized administrative office handles the accounting, purchasing and similar functions for the majority of the Federal and State contracts and grants, and some of the purchasing functions for Tribal programs. The Tribal government's accounting system which accounts for Tribal administrative costs operates through the Tribe's Individual Indian Money (IIM) accounts maintained by BIA's Crow Agency. The Tribal revenues are deposited in the IIM accounts and expenditures are made directly from the IIM accounts based on vouchers prepared by the Tribal bookkeeper and signed by the Chairman or authorized representative. The Crow Central Education Commission and the Crow Housing Authority are organized as separate entities and have their own systems.

The Tribe does not prepare consolidated financial statements for its combined activities. It does prepare cash-basis expenditure reports for individual activities. Audits have been performed on an individual program basis for many of the Federally funded programs by independent public accountants.

FINDINGS

1. FINANCIAL STATUS

The Crow Tribe is in an unstable, adverse financial condition because of ineffective financial management, or financial mismanagement. At September 30, 1981, the Tribe had current liabilities of over \$1.8 million, as well as long term debts of about \$6 million, and had no ready means for timely liquidation of the current liabilities and long term debt servicing costs. As a result, the Tribe was in a state of technical insolvency. This unfavorable financial status stems mainly from the disregard of budgets and program finances. In numerous cases cash obtained or reserved for a particular purpose or program was used to pay for expenses of other programs or functions.

The nature of the debts are indicative of the Tribe's mismanagement or ineffective management of cash. For example:

---Over \$532,000 was owed for unpaid Federal or State of Montana payroll taxes or premiums. These unpaid amounts have improperly resulted in a source of funds for the Tribe because contracts and grants were charged gross salaries (including employee tax withholdings) and employer's share of taxes or premiums. Over \$455,000 of this \$532,000 was owed to the Federal Internal Revenue Service (IRS) for payroll taxes and withholdings from employees for income taxes, plus interest and penalties on the unpaid amounts. Most of the amount owed to IRS accrued since January 1, 1981.

Over \$77,000 was owed the State of Montana for unemployment taxes and workmen's compensation premiums. The State cancelled workmen's compensation coverage on June 13, 1980, and an initial payment of \$9,122 must be made to reinstate coverage.

---About \$527,000 was owed to the Government for funds used for unauthorized purposes, mainly advances or drawdowns under letters of credit in excess of expenditures. These excess drawdowns or advances related to programs that were completed, suspended, or cancelled. And, as explained subsequently in this report, several of the programs were suspended or cancelled because of the Tribe's misuse of letter of credit drawdowns or disregard of contract budget limitations. BIA cancelled its letter of credit with the Tribe in May 1981.

---About \$169,000 was owed to a bank for unsecured loans obtained to meet the Tribal payrolls. The Tribe borrowed \$78,000 and \$75,000 on October 30, and November 25, 1980, respectively. Although the loans were due in November and December 1980, they had not been paid as of September 30, 1981.

---At least \$240,000 was owed to over 50 vendors or suppliers. As a result of our confirmations we believe that this amount is low. We sent confirmation letters to 22 vendors and received 9 responses indicating that the Tribe owed \$91,948 more than the \$7,812 shown by available Tribal records for these 9 vendors. One of these vendors stated that the Tribe owed over \$89,135 but according to the Tribe's accounts payable records only \$4,960 was owed.

The Tribe's procurement office tried to maintain records of outstanding obligations to suppliers and vendors. Two sets of ledger cards were maintained, one set by vendor/supplier, the other by program. The ledger cards were not complete nor in agreement. There was a difference of \$26,259 between the two ledger card files. Further, ledger cards showed maximum liabilities of \$72,081 as compared to the \$240,000 minimum established during our audit.

---Over \$132,000 in attorney, consulting and professional auditing fees was owed. The auditing fees totaled \$32,858 for various audits of specific contracts, for which Federal funds were budgeted.

---A total of \$47,523 under a loan from the Economic Development Administration (EDA) is delinquent.

The Tribe was cash poor and was unable to pay off the \$1.8 million currently owed. The Tribe's substantial natural resources have the potential of generating large sums of revenue which could be used to pay for the liabilities. However, a substantial amount of future revenue has been committed by the Tribal Council for per capita payments, Tribal government operation, or purchase of land. In fact, the \$1.8 million owed as of September 30, 1981 does not include a \$400,000 loan to the Tribe from the Tribe's revolving credit fund, made subsequent to September 30, 1981. This loan was used to purchase lands from individual Tribal members whose loans were in danger or in the process of being foreclosed by various



lending institutions. The Tribe pledged to the revolving credit fund, as collateral for the loan, \$600,000 to be received by the Land Resources Committee from the Shell Oil Co. coal lease.

Further, the \$1.8 million of current liabilities does not include \$830,260 of unresolved, questioned and disallowed costs resulting from prior audits of Federal contracts and grants. Nor does it include any of the \$128,766 in questioned or disallowed costs resulting from this audit.



2. FINANCIAL MANAGEMENT

An adequate financial management system is essential to assure effective and economical use of resources and to enable management to obtain or provide accurate and timely reporting on the discharge of its responsibilities. An adequate system should provide at least the following:

---Accounting records supported by source documentation.

---Records that identify sources and applications of funds.

---Procedures for determining reasonableness, allowability and allocability of costs.

---Effective control over and accountability for all funds, property and other assets, and assurance that they are used only for authorized purposes.

---Accurate, current, and complete disclosure of financial results of programs.

---Comparison of actual outlays with budgeted amounts.

---Procedures to assure that letter of credit advances (drawdowns) comply with regulations for use, including minimizing the time elapsing between drawdown and disbursement.

The Crow Tribe has expended over \$1 million of Federal funds to design and implement a system and has established, on paper, an adequate financial management system. However, the system had not been completely implemented, and its policies and procedures had been disregarded or circumvented. There was an apparent lack of concern or sufficient competence on the part of managers, supervisors, or other key personnel involved in financial management activities. As a result, the Tribe did not actually know its financial condition; including the financial results of programs, status of funds and other assets, nor the status of liabilities. In short, the Tribal managers did not have the information to provide effective management of Federal (or Tribal) programs, even if they wanted to.

The Tribe's financial management system was developed under a management improvement program funded by three Federal agencies. The three agencies provided over \$1 million during the period August 1, 1976 through October 31, 1979. BIA provided \$827,365 under four grants and one contract for developing and implementing a Tribal programs office, an accounting system and related financial controls, and procurement, property control and personnel systems. The Administration for Native Americans (ANA), an agency of the Department of Health and Human Services, provided \$162,759 for employee training, technical assistance and implementation of the financial management system. The U.S. Civil Service Commission provided \$10,577 for development of a personnel system and manual.

As a result of the management improvement program, a centralized accounting office was established which included the functions of accounting, budgeting, procurement, property management and personnel. A majority of Federal programs, and some Tribal programs, were included under the centralized accounting office. However, partly because of a purported general lack of trust and confidence in the capabilities within the centralized accounting office, some functions or parts thereof were usurped by program directors. For example, procurements were made by program personnel without going through the centralized unit, and accounting for a \$320,000 contract was maintained by employees under the direct supervision of the program director rather than by centralized accounting.

Financial management problems due to incomplete implementation of the system and circumvention or disregard for established policies and procedures are discussed by functional area in the following report sections.

Budgeting

Under the management improvement program, the function of budgeting was to be centralized within the centralized accounting office. However, the Tribe has either ignored budget controls or was ineffective in applying sound budgetary practices. Further, the Tribe established an independent Office of Management and Budget (OMB) funded by ANA. Although, \$307,563 had been expended for OMB through September 30, 1981, we were unable to

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identify any tangible benefits of OMB other than providing employment for Tribal members. On September 11, 1981, OMB was abolished by the Tribe and the functions were to be integrated into the centralized accounting office.

The centralized accounting records show that as of September 30, 1980 expenditures had exceeded authorized contract or budget amounts by \$1,020,937 in 12 of the 46 program accounts that were active in FY 1980. The records also show that as of September 30, 1981 expenditures had exceeded authorized amounts by \$575,729 in 14 of the 50 active FY 1981 program accounts.

The centralized administration account shows the largest deficit, accounting for \$741,148 and \$279,251 of the excess for FY's 1980 and 1981, respectively. This account is supposed to be funded in part by the Tribe's negotiated indirect cost rate. The administrative account overexpenditures are the result of failure to exercise budget controls and not providing for Tribal funding of administrative costs when, for various reasons, the programs would not recover the full amount of indirect costs. We were told by the past and present Director of Finance that the director of the Tribe's OMB had significantly overestimated the amount of indirect costs to be recovered during FY's 1980 and 1981. Based on the erroneous estimate many people were hired resulting in the substantial overexpenditure.

Centralized Accounting

The centralized accounting system has not been effectively implemented and necessary financial controls ranged from nonexistent to marginal. There



were many reasons for the breakdown in the accounting system, but a primary reason was the ineffective performance of responsibilities by supervisory accounting personnel in assuring that elementary and necessary accounting procedures were being performed.

A major certified public accounting firm designed the accrual (encumbrance) basis fund accounting system that accounts for the financial aspects of events as they occur, regardless of when actual disbursements are made. However, the system implemented was on a cash basis, except for accrual of payroll and related taxes and benefits.

The accounting system was designed to have two ledger systems; central accounting control (CAC) for asset, liability, income and expense control accounts and program accounting control (PAC) for detailed income and expense accounts by program. When the accounts of CAC and PAC are combined and reconciled an overall financial report can be produced. However, there had never been a complete reconciliation between CAC and PAC accounts. Standard accounting practices require reconciliations between subsidiary and control accounts and, in our opinion, this should be accomplished monthly. We prepared a trial balance of the PAC accounts for 50 programs as of May 31, 1981. The following problems were noted when the unexpended balances for the PAC accounts were compared with the CAC general ledger control accounts.



---The unexpended balances per PAC did not agree with the CAC accounts in 39 of the 50 program accounts. The differences ranged from PAC unexpended balance exceeding CAC by \$114,538 to CAC exceeding PAC by \$111,931.

---The amounts authorized under contracts as shown in the Tribe's contract files did not agree with the recorded authorized amounts (budgets) for 35 programs. These differences ranged from overrecorded contract amounts of \$192,354 to underrecorded contract amounts of \$125,000.

---A trial balance of the PAC accounts showed that debits did not equal credits for 22 of 50 program accounts. The differences between credits and debits were as high as \$32,059 for one program, and resulted in a net of debits exceeding credits by \$12,833 for all 50 program accounts.

---We noted at least 222 errors in recording of entries and maintenance of PAC accounts. These errors were noted in our attempt to reconcile the PAC accounts and, undoubtedly, there are many other errors.

As discussed elsewhere in this report, other necessary reconciliations had not been performed. For example, we found that bank accounts and subsidiary ledgers for travel advances and salary advances had not been reconciled to respective CAC asset accounts.

In our opinion, most of the errors resulted from substandard accounting system maintenance. All of the errors we noted could have been identified and corrected if proper PAC trial balances and PAC account reconciliations with general ledger control accounts had been made. The failure to prepare consolidated trial balances of PAC accounts, to reconcile PAC and CAC accounts and to perform other reconciliations is, in our opinion, due to the lack of proper supervision and attention to responsibilities by the individuals who have occupied the Director of Finance and Controller positions.

It is for note that the Tribal government operation accounts were not part of the centralized accounting system. These accounts which involve Tribal administration costs were maintained separately on a cash basis using TIM accounts. Expenditures were made directly from TIM accounts based on vouchers prepared by the Tribal bookkeeper and signed by the Chairman or an authorized representative. The supporting documentation, ie., invoices, was maintained by the Tribe. Copies of the vouchers were sent to an accounting and data processing firm. The firm prepared monthly budgetary reports and prepared the payroll tax reports. This system worked fairly well because BIA and the Tribal bookkeeper closely monitored the budget. BIA controlled the cash, and the accounting firm made sure that payroll taxes were paid.

Cash Management

The Tribe has experienced severe cash management problems as indicated in preceding discussions of financial status and financial management. The

Tribe has used improper or questionable methods of meeting cash requirements for payrolls and other disbursements, such as the use of funds from one program to finance disbursements under other programs and the use of funds withheld from employees for income tax and social security to meet such expenses. In addition the Tribe created interfund liabilities for cash transfers as follows:

---A \$50,000 loan from the Crow Tribal Revolving Loan Fund at 13 percent interest was made to the centralized accounting office in August 1981 to help meet payroll expenses.

---A transfer of \$12,000 to the centralized payroll account from the per capita checking account resulted in at least 129 per capita checks issued to Tribal members being dishonored for insufficient funds.

---The Tribe transferred \$70,000 to the centralized payroll account from funds advanced by the Indian Health Service (IHS) to the Crow Tribal Health Board. The IHS funds were for construction of a medical clinic. As of October 14, 1981, the Tribe had not repaid \$40,000 of the \$70,000.

Another example of how the Tribe has improperly obtained and used Federal funds also involves the letter of credit advances for the IHS contract for construction of the medical clinic. The Tribe had received by October 2, 1981, \$1,267,265 of the \$1,485,000 grant for construction of the medical clinic. However, as of that date only \$175,221 in payments had been made

to contractors and the Tribe had earned \$10,394 in interest on the advanced funds. Earning interest on advances and letter of credit drawdowns is contrary to the U.S. Treasury and IHS guidelines.

We identified 12 different checking accounts of which only two were integrated into the Tribe's centralized accounting system. The other ten accounts were established to meet the banking needs of specific programs or projects. In our review of six of the checking accounts we noted the following internal control weakness:

---None of the checking accounts had been reconciled monthly since account inception.

---Three accounts had no evidence of reconciliations.

---Two accounts required only one signature on checks.

---Two of the three authorized check signers for one account no longer worked for the Tribe and the account required two signatures.

---The Sun Lodge account had checks written to the bank to obtain cash in order to pay vendors.

---Only one signature was required to transfer funds from the medical clinic savings account with a balance of over \$1 million.

---While there had been attempts to reconcile the Crow Tribal Centralized Program checking account, the reconciliations were never completed. The reconciliations show that unexplained differences ranged from \$159 to \$121,288.

---Security over blank check stock was inadequate. In this regard, in August 1981, three stolen blank checks were forged for a total amount of \$12,100.

Payroll and Personnel

Internal controls for the payroll system have either been circumvented or disregarded to the extent that costs produced by the system are questionable. This disregard and circumvention of internal control policies made the payroll system susceptible to fraud and abuse. Personnel management within the Tribe was nonexistent. Time accountability was incomplete or meaningless and had been abused to the extent that in some cases the time sheet was used as a claim for cash payment rather than proof of hours worked.

The Crow Tribal Personnel Practices and Policy Manual was adopted by the Crow Tribal Council, January 14, 1978, through resolution number 78-06. The purpose of the manual was to set forth guidelines and standards for use in personnel management of all Tribal employees.